

to cope with sky-high prime rate



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Indicators...

Purchases of industrial supplies declined in every region in September, according to the *NIDA-SIDA Industrial Distribution Index*. The index, compiled from the monthly MRO sales figures of 100 distributors, stood at 276.1 in September, down 11 points (3.8%) from August. That level was 22.4 points (8.8%) above that of September 1978. The *NIDA-SIDA Inflation Index*, based on the sales prices of 10 products, was at 229.1 in September, up 1.8 points (0.8%) from August and 21.3 points (10.3%) from the year-before level. (Both indexes are 1967=100.) Regional sales, comparing September to month-before and year-before levels, were: east, 226.6, down 5.7% and up 5.9%; midwest, 260.8, down 4.5% and up 0.15%; west, down 2.7% and up 19.1%; south, down 2.5% and up 25%. . . The September *ASMMMA New Order Index* was down 1.8 points (0.7%), standing at 258.4. The two-month, moving average was 25.7 points (11%) over the year-before level. . . The *FRB Index of Production Manufactures* was at 145.5 in September, up 1.4 points. . . The *SIDA Monthly Sales Trend Report* for September declined 5.4%, with a 1.4% increase over September 1978 sales. Area I (N.C., Va., W. Va.) had the largest drop, 14.5%; area IV's (Ark., La., Okla., Tex.) was least, 3.4%. . . The National Welding Supply Assn.'s *Welding Supply Index* was at 136.9 in September, up 1.3 points from August and 15.9% from the year-before level. . . Demand for aluminum dropped sharply in September, down 20.3 points (9%) from August and 6.2 points (2.9%) from September 1978, according to the National Assn. of Aluminum Distributors' *Quick Pulse Index*. . . The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. was down 10.2 points from August's 204.7 reading, but up 15.4 points (8.6%) over September 1978. . . The nation's industrial output rose by 0.5% in September, following August's decline of 0.9%, according to the Federal Reserve Board. . . New orders for durable goods rose a surprising 5.9% in September, the largest monthly gain recorded in a year, according to an analysis of the Commerce Dept. □

REGIONAL REPORT

September sales hit by an 8% decline

September sales dropped by nearly 10%, according to *Regional Report* respondents.

August sales had increased an overall 13%, but September's dropped 8% in comparison to the previous month's.

The drop does seem to be consistent with softness found in other indexes reflecting distributor sales in September (see *Indicators*, page 20), although economywide indicators for the month remained strong.

New factory orders, for example, jumped ahead by a surprising 3.9% on a seasonally adjusted basis, according to the Commerce Dept. However, Commerce analysts warned that the economy's robust

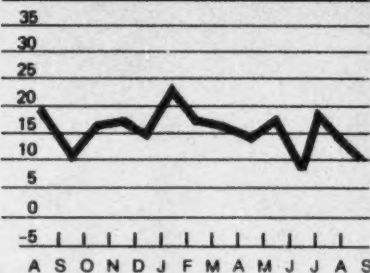
performance, using orders as an indicator, does not mean they do not still expect a recession.

Strength in new orders was attributed to defense, steel and aerospace spending.

Also on the upturn in September were durable goods orders, by 5.9%. As with factory orders, it was the steepest monthly increase in a year. Primary metals and transportation-equipment orders were said to be powering the rise.

It was generally conceded that this sort of growth was unlikely to continue through the fourth quarter, however. For one thing, the cost of borrowing is simply too high.

% changes in sales when compared with same month in previous year



Monthly sales rose 10% higher than a year before, but so did inflation ...

SALES BY REGIONS (% change)

	Sept. '79 vs. Aug. '79			Sept. '79 vs. Sept. '78			9 mos. '79 vs. 9 mos. '78		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.	6	-14	-4	15	18	16	14	21	18
Connecticut	-10	-9	-9	6	15	11	16	24	20
Massachusetts	31	24	27	22	17	20	15	20	17
MIDDLE ATLANTIC: N.Y., N.J., Pa.	-22	-10	-16	12	7	9	17	15	16
New York Metropolitan Area	-12	-8	-10	-7	9	1	—	20	—
Upstate New York	-2	-1	-2	16	7	11	18	11	14
Pennsylvania	-11	-37	-24	16	5	11	17	22	20
SOUTH ATLANTIC: Del., D.C., Md. Fla., Ga., N.C., S.C., Va., W. Va.	-11	-9	-10	40	22	31	40	18	29
Georgia-Florida	-4	-7	-6	8	29	18	15	21	18
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.	-16	-3	-9	2	1	1	1	22	11
Indiana	-16	6	-5	-2	6	2	23	31	27
Wisconsin	-33	1	18	14	14	14	17	40	28
Chicago	-27	2	-16	3	40	21	13	31	22
Michigan	-16	-13	-14	-5	22	9	15	9	12
Ohio	-7	-10	-8	4	8	6	-7	16	5
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	-1	3	1	17	-24	-4	22	-6	8
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	28	-19	5	-1	-1	-1	40	5	22
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	-1	-8	-5	22	14	18	8	16	12
Texas	—	-16	—	—	36	—	—	22	—
MOUNTAIN: N. M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	-27	-17	-22	1	9	5	40	17	28
PACIFIC: Calif., Ore., Wash.	-5	-19	-12	9	14	11	14	20	17
L. A.-San Diego	-12	-26	-17	-4	19	8	32	15	23
Oregon-Washington	-6	-13	-10	11	14	13	21	22	21
U.S. TOTALS	-8	-8	-8	9	12	10	19	18	18

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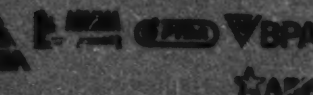
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New ID poll finds receivables' level holds steady

NEW YORK—Distributors appear to be holding the line on receivables, according to a new survey by ID.

The findings, supplied below, were compiled from figures submitted by *Regional Report* respondents. Figures listed are for average days outstand-

ing, by region. Exceptionally high or low figures have been deleted to ensure that overall averages remain realistic.

A rundown on receivables will be published monthly. It will appear on the *Regional Report* page hereafter. □

	October '79		October '78	
	Gen.	Spec.	Gen.	Spec.
New England	39.6	44.7	43.6	49.1
Middle Atlantic	40.2	42.6	40.7	42.2
South Atlantic	38.2	37.3	38.7	39.0
East North Central	37.1	41.0	38.0	40.0
East South Central	34.5	41.7	40.5	39.8
West North Central	41.0	38.5	39.0	36.0
West South Central	39.6	41.0	39.6	38.5
Mountain	38.2	41.1	39.7	39.2
Pacific	33.5	43.7	36.4	43.2
U.S. average	38.0	41.3	39.5	40.7

Key to regional breakdowns by state, page 43.

Indicators...

Purchases of industrial supplies nationally dropped slightly in October, according to the *NIDA-SIDA Industrial Distribution Index*. The October reading was 274.8, down 1.3 points (0.47%) from the month before. The index was 24.2 points (9.7%) above the year-before level. The *NIDA-SIDA Inflation Index* in October was at 231.1, up 0.96% from September and 10.1% from the year-before level. (Both indexes are 1967=100.) Regional sales for October, comparing October to month-before and year-before levels, were: east, up 2.7% and 7.2%; midwest, down 0.35% and up 1.2%; west, up 0.8% and 21.3%; south, down 1.9% and up 22.1%...The *ASMMA New Order Index* was up 3.8 points (1.5%) in October. It was 10.9 points (4.3%) over the year-before level...The *FRB Index of Production Manufactures* stood at 145.5 in October, down 0.3 points from September...The *SIDA Monthly Sales Trend Report* for October showed an overall increase of 17.7% over September, with a 20.2% boost over year-before sales. Area II (Fla., Ga., S.C., P.R.) led in both periods, 22.2% and 32.2%, respectively...The National Welding Supply Assn.'s *Welding Supply Index* hit a record level of 147.7 in October, up 10.8 points (7.9%)...The *Wholesale Hardware Index* of the National Wholesale Hardware Assn. stood at 207.4 in October, up 12.9 points (6.6%) from September...The *Quick Pulse Index* of the National Assn. of Aluminum Distributors was at 221.1 in October, up 16.4 points (8%) from September...Machine tool orders, shipments and backlogs all increased during October, according to the National Machine Tool Builders Assn. Foreign and domestic orders increased 3%; shipments were up 8%; backlogs were up 4%...U.S. business plans to increase capital spending by 9.5% this year, according to McGraw-Hill Publications Co. In total, the projected capital spending is for \$196 billion. However, McGraw-Hill said that inflationary price increases will negate the rise...The Commerce Dept.'s index of 12 leading indicators fell 0.9% in October. □

REGIONAL REPORT

October brought strong sales gains

Sales of industrial supplies remained strong in October, according to *Regional Report* respondents, despite a decline posted earlier for September.

Overall, sales were up 15% compared to the previous month and to October 1978, indicating that distributors had yet to taste recession.

October's economywide indicators pointed down, for the most part.

The Commerce Dept.'s index of leading economic indicators fell 0.9%, a move Government analysts said confirms predictions that the expected downturn had indeed started.

Another omen: New factory orders also dropped, by 0.4%, following a 3.1% rise in September and a 1.9% increase in August. The Commerce Dept. said the

drop was partly due to decreased defense spending, although a 2% decline in durable-goods manufacturing was also listed.

There were some hopeful signs remaining during the month. For one thing, machine tool orders climbed to record levels for the second consecutive month, up 14% for domestic orders and 33% for exports when compared to October 1978 levels.

For another, industrial output climbed 0.1% over September, which registered a 0.5% increase.

Overall, analysts avoided unequivocal statements about the near-term future of the economy, in large part because of widespread uncertainty about an economic wild card—the Middle East. □

% changes in sales when compared with same month in previous year



Another peak: Month's sales remained 15% above the level reached in October 1978.

SALES BY REGIONS (% change)

	Oct. '79 vs. Sept. '79			Oct. '79 vs. Oct. '78			10 mos. '79 vs. 10 mos. '78		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: Conn., R.I., Mass., N.H., Vt., Me.									
Connecticut	23	12	19	21	19	21	17	21	19
Massachusetts	31	9	18	30	12	21	18	21	19
	25	30	27	25	33	27	27	25	26
MIDDLE ATLANTIC: N.Y., N.J., Pa.	5	21	15	9	15	12	11	16	13
New York Metropolitan Area	24	17	20	8	12	11	11	19	15
Upstate New York	23	18	21	7	2	4	5	10	7
Pennsylvania	-10	21	5	11	23	17	15	29	21
SOUTH ATLANTIC: Del., D.C., Md. Fla., Ga., N.C., S.C., Va., W. Va.									
Georgia-Florida	20	16	18	2	24	14	21	19	20
	16	13	14	37	26	31	17	21	19
EAST NORTH CENTRAL: Ohio, Ind., Ill., Mich., Wis.									
Indiana	12	1	5	9	-1	4	39	19	30
Wisconsin	29	-10	-4	28	6	10	23	7	10
Chicago	7	-1	4	20	13	18	15	14	15
Michigan	10	6	5	-4	40	27	12	34	29
Ohio	14	—	—	2	—	—	40	—	—
	13	21	17	10	19	14	17	15	16
EAST SOUTH CENTRAL: Ala., Miss., Ky., Tenn.	21	13	-7	14	15	15	14	-8	4
WEST NORTH CENTRAL: Minn., N.D., S.D., Iowa, Neb., Kan., Mo.	2	10	8	8	14	13	18	17	17
WEST SOUTH CENTRAL: Ark., La., Okla., Tex.	19	30	23	27	5	11	18	16	17
Texas	—	—	—	—	—	—	—	—	—
MOUNTAIN: N. M., Ariz., Colo., Utah, Nev., Wyo., Mont., Idaho	18	-6	10	8	11	9	14	22	17
PACIFIC: Calif., Ore., Wash.	22	24	23	17	14	16	23	12	19
L. A.-San Diego	20	25	22	7	11	8	29	15	22
Oregon-Washington	22	20	21	18	19	19	23	18	21
U.S. TOTALS	17	14	15	14	16	15	19	17	18

The mass-migration theory of a huge exodus of northern industry southward is nothing less than a well-publicized myth. To be sure, northern manufacturers and distributors have opened branches, subsidiaries and, in some cases, whole operations in the South to take advantage of its massive diversified growth. It has become a mature market in its own right. The land of cotton, milk and honey has now become the land of electrical and non-electrical machinery, transportation, rubber and plastics and more. Magnolias have given way to oil rigs, cotton fields to computer assembly plants, and lazy afternoon fishing holes to bustling ports. Diversified industry has become the grits and pecan pie of the South and, frankly, manufacturers everywhere want a slice.

"But big migration is a myth," proclaims Lynn Browne, assistant vice president, the Federal Reserve Bank of Boston. "I don't see a monolith," agrees Bruce Yandle, chairman of the economics department at Clemson University, S.C. (an ex-bearings distributor). "Everyone sees a mass exodus. I don't. The Northeast, Mideast and the Great Lakes have all lost small amounts of industry, but their original share is so large that when it shows up in another region, it stands out."

"There is no radical, absolute pulling up of stakes and replanting them in the South by northern companies," emphasizes Bruce Williams, vice president and economist with the First National Bank of Atlanta. "There is expansion outside of traditional industrial areas. But not at the accelerated pace some people think. The migration myth has been quite overblown."

There was definitely a physical migration southward of New England textile firms, starting in the 1920's. These com-

panies moved South to take advantage of cheaper labor costs, better climate, less unionization, and closer proximity to the resources they need to produce goods. It was a move for survival, not to capture new markets.

Now, producers all over the U.S. are recognizing the South as a necessary place to expand their operations, since so much of the American population has settled there in recent years. They are not abandoning the North. They are accepting the emergence of the South as a viable market area, one that has gotten its share of new and established businesses.

"Northern companies are branching out," observes Williams. "The South is growing fast industrially. It's a logical spot to branch to, since the population and work force there are growing."

Births and deaths

Carol L. Jusenius and Larry C. Ledebur, both noted specialists in regional research, stress that a massive fleeing of industry from North to South is not a reality. In their work *Documenting the 'Decline' of the North*, done for the Dept. of Commerce's Economic Development Administration, Jusenius and Ledebur indicate that the main reason for a decline in the North in recent years was not that so many firms migrated out, but that more firms closed than were formed. "Compared to the South, the region was not generating enough new firms to offset the rather large number that closed." The study revealed that, in a healthy economy, deaths of firms are neatly replaced by the births of new ones. Yet, between 1969-1974, births in the North accounted for only 61.4% of the business deaths there. Births of new businesses in the South replaced 91% of those that folded.

Jusenius' research showed that with immigration (some firms do move

North), the net loss due to migration in the North between 1969-1974 was only 0.4% of the total firm loss.

"Northern cities are not losing jobs faster than the southern ones, nor are cities losing jobs particularly faster than suburbs," concludes David L. Birch, of the Massachusetts Institute of Technology's *Program on Neighborhoods and Regional Change*. "It appears to be management skill rather than location that determines job loss."

"Failures of firms don't vary much by area," agrees Allan L. Olson, economist with the Office of Economic Research of the Dept. of Commerce. "But there are more firm formations in growing areas, and fewer in older areas."

Close to the source

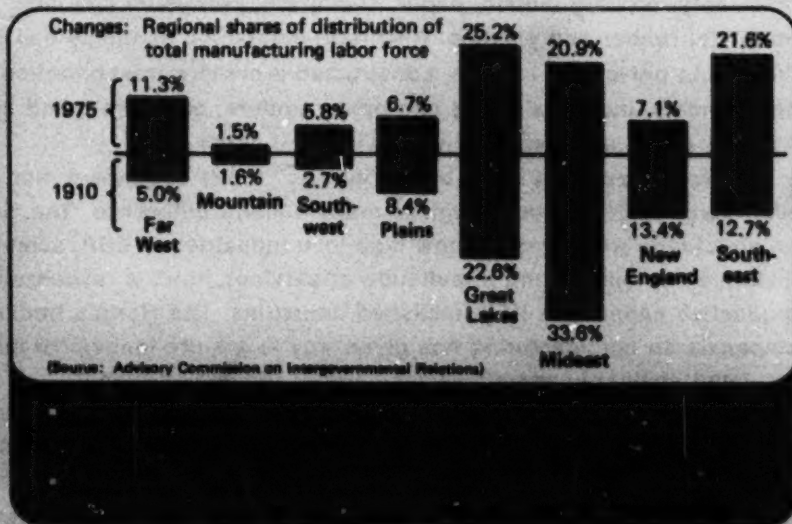
There has always been a movement among companies to get nearer to resources, mainly for production and transport purposes. Forrest I. Rettgers, executive vice president with the National Assn. of Manufacturers (NAM), points out that when "raw materials change through technology, outlets and people change. There are constant shifts." For example the aircraft industry started out strong in the North. But California offers more open space for testing and better all-year flying weather.

The National Aeronautics and Space Administration moved its headquarters from Langley Field, Va., to Houston. Military storage in North Cumberland, Pa., moved to Texas to take advantage of the climate.

Not much steel has moved southward, although Birmingham is an established steel center. Lone Star Steel in Texas was built by the Government in a diversification effort in case the U.S. got bombed during a war. The Government sold it to private industry. Bristol Steel,



"Some states started from a very small base."—Friedenberg





A taxing situation. . .

One way Southern municipalities have attracted industry from other parts of the U.S., from abroad, and from within, has been an easier, incentive-oriented tax structure. Conversely, one way many northern and midwestern cities have lost industry, or inhibited new industry, has been through higher taxes, necessary to support social programs and extensive mass transit and road systems.

In the last few years, northern cities and municipalities have matched the South in their tenacity in attracting, keeping and developing businesses. Since New York State reduced taxes, it has enjoyed a renaissance of new businesses. Still, some states don't believe in tax incentives or waivers. Virginia, for one, doesn't grant new companies any favors it doesn't offer existing companies. Other states offer low-cost loans to help companies comply with pollution control standards through development agencies.

"Tax breaks are a factor, but recent studies show that they're not a big deal," offers Bruce Williams of the First National Bank of Atlanta.

Williams points out that personal taxes are perhaps more of a concern to a company than corporate taxes. Cost of living and housing cost differentials can make the difference for one area over another. Housing and taxes make up 90% of the difference in cost of living factors between regions. New York, for example, has an 8% sales tax. Atlanta has a 4% tax. Property taxes run the same course. "The personal tax burden makes it much cheaper to open a business in the South," says Williams.

"You have to weigh the relationships of taxes to the other costs involved in running a business," says Will Myers of the Advisory Commission on Intergovernmental Relations. "If you could find the cost of labor lower, that would overwhelm tax considerations."

Clemson's Bruce Yandle agrees that taxes are a relatively minor factor in any company start-up or relocation. "You can't forgive too many taxes, or the services you need won't be there anymore."

State and local taxes as a percentage of per-capita personal income comes to 13% in the Northeast; 12.2% in the North Central; 10% in the South, and 12.4% in the West.

Roger W. Schmenner of the Harvard-MIT Joint Center for Urban Studies claims that "wooing industry, especially through urban tax and financial incentives to large employers, is likely to be unproductive." He feels that a better policy would be one of "tending your own garden." This would entail, in his opinion, facilitating on-site expansion of existing companies; helping small, growing plants to find new or additional space within the city limits or nearby; promoting the city or area's advantages as an initial location.

"Small companies are the ones that really need the tax breaks," says Myers, "but they don't have the in-house legal expert that the bigger ones have. They don't know how to get the tax breaks."

Bristol, W. Va., is close to vast coal and iron ore resources. But Bethlehem Steel will always stay close to Cornwall, Pa., site of the biggest iron ore open pit in the country.

"It's not just a move to the South," Rettgers argues, "but an entire set of factors that makes one region of the country more favorable to industry and helps it compete with more success in U.S. and world markets."

There's no doubt that many companies, especially new ones, are starting operations in the Sunbelt. New firms are the key, although existing industry is still vital. John S. Hekman, assistant professor of economics at Boston College, stresses that it's not so critical for regions like the North to keep old industries at home as it is to replace that industry with new entrants.

In a recent *New York Times* article, Hekman contended: "The biggest mis-

take northern states can make would be to establish a policy of subsidies and restrictions designed to retain old industries. This would reduce productivity not only of the Northeast but of the whole country."

"You can't try to be what you used to be. You have to look ahead," echoes Yandle. "The rate of job loss is practically the same in all areas," stresses Birch. "Encourage job replacement."

The many faces of Dixie

To attract any kind of attention at all from old or new industries, the South has had to change. It has shaken its heavy reliance on agriculture, and is gradually pushing traditional staples like furniture, tobacco and textiles into supporting, not starring, roles.

Since 1970, about three-fourths of the growth of industrial employment in the South has been in high-wage manufac-

turing industries, according to the Southern Growth Policies Board. Only 25% of the growth since 1970 was in lower-wage manufacturing (apparel, textiles, furniture, wood and lumber and leather).

The more recent growth in the South has come from electrical machinery, primary metals, paper, chemicals and petroleum and coal production. These industries accounted for 42% (171,000) of all new southern manufacturing jobs between March 1970 and March 1976.

The middle-range wage scale industries—fabricated metals, rubber and plastics, printing and publishing, and electrical equipment (125,000 jobs)—accounted for 32% of all new jobs in this period.

The leading individual growth sector in the South has been non-electrical machinery (100,000 jobs in the six-year period). This includes farm and construction machinery, office and computing machines, cooling and heating equip-



'The South has the manpower to attract industry.'—Rolley

ment. These industries are especially strong in Texas, Oklahoma, Kentucky, Virginia and West Virginia. Rubber and plastic products are strong in every state except Mississippi and Louisiana. Transportation equipment is taking off, after a sluggish period, in Tennessee, Virginia and Arkansas. Textiles, lumber and raw wood, on the other hand, have experienced sluggish employment and growth.

Clemson's Yandle points to the well-defined Piedmont Crescent, extending from the foothills of the Appalachian Mountains to northern Alabama, Atlanta, through South Carolina, North Carolina and on up to Danville, Va., as being a "red-hot" highly concentrated industrial region. "It's one of the largest concentrations of manufacturing as per cent of population in the U.S. A very high percentage of the workforce there is employed in manufacturing."

"All types of industry has come to the South now since the region has many large population centers," says the Fed-